EXHIBIT 3
DATE 1/11/07
HB 11

Treasure State Endowment Program (TSEP)

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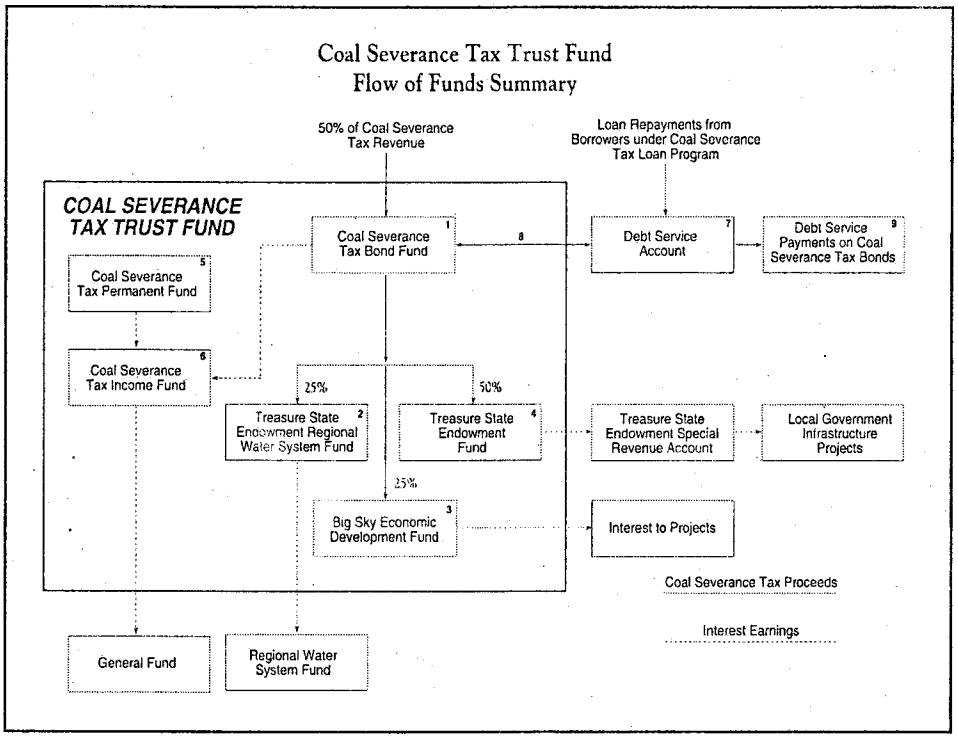
- TSEP created in June 1992 when Montana voters passed Legislative Referendum 110.
- State-funded grant program that assists local governments with the construction or repair of:
  - drinking water systems
  - wastewater treatment facilities
  - sanitary or storm sewer systems
  - solid waste disposal and separation systems
  - bridges
- *Purpose* - To help solve serious infrastructure-related problems and keep the projects affordable.

- *Eligible Applicants* - Cities and towns, counties, consolidated governments, tribal governments, and county or multi-county water, sewer, or solid waste districts
- *Funding* – The Treasure State Endowment Fund, which is part of the permanent coal trust fund, funds the program - no general funds are used.
  - The program operates on the interest earnings from the fund.



Actual Deposits and Interest Earnings

	Annual Deposits To The TSE Fund (Principal)	Cumulative TSE Fund Principal	Annual Interest Earnings	Cumulative Interest Earnings
Initial	$10,000,000			
FY '94	$9,809,476	$19,809,476	$928,696	$928,696
FY '95	$9,910,610	$29,720,086	$1,810,151	$2,738,847
FY '96	$8,787,910	$38,507,996	$2,916,499	$5,655,346
FY '97	$9,151,139	$47,659,135	$3,453,907	$9,109,253
FY '98	$8,720,156	$56,379,291	$4,250,377	$13,359,630
FY '99	$8,361,643	$64,740,934	$4,772,585	$18,132,215
FY '00	$12,189,836	$76,930,770	$5,123,375	$23,255,590
FY '01	$10,733,368	$87,664,138	$5,801,525	$29,057,114
FY '02	$11,646,533	$99,310,671	$6,804,840	$35,861,953
FY '03	$10,597,412	$109,908,083	$7,175,069	$43,037,023
FY '04	$6,651,367	$116,559,450	$8,073,637	$51,110,660
FY '05	$8,803,360	$125,362,810	$9,733,203	$60,843,863
FY '06	$9,393,267	$134,756,077	$7,941,183	$68,785,046

TSEP provides the following types of financial assistance

- Preliminary engineering grants
- Emergency grants
- Construction grants

Note: The TSEP Statute, and the types of financial assistance that can be provided, was modified by the 2005 Legislature.

- 195 matching construction grants have been awarded to local governments totaling almost $75 million since 1993.
  - The total cost to build these projects was over $337 million
- 52 construction projects are currently being administered by the TSEP staff.
  - See Appendix C of the legislative report (pages 321 through 340) for the status of uncompleted TSEP projects that were previously approved.
- 115 preliminary engineering studies have been completed or are in progress by local governments since FY 2002.
- 13 emergency projects have been completed by local governments since FY 2002.

Grants for Preliminary Engineering

- $600,000 was available for the 2007 biennium
  - Funded 43 studies
- Grants awarded by the Department
- Open cycle – apply at any time
- Maximum grant $15,000
- $ for $ match requirement

Grants for Emergency Projects

- $100,000 available for biennium
- Grants awarded by the Department
  - Four emergency projects have been funded during the 2007 biennium totaling approximately $90,000.
- Must have a very serious problem that cannot wait for Legislative approval
- Must expend local $$ first
- Maximum TSEP award amount $30,000
- Requests are coordinated with DNRC

Grants for Construction Projects

- Requests limited to $750,000 per project
  - Likely to be modified in next funding cycle
- $ for $ match requirement
- Limit of $15,000 per household
- Hardship requirements:
  - very serious problems - scores at a level four or five on Statutory Priority #1
  - user rates would be at least 1.5 times the target rate
  - other sources of funding are not reasonably available

Seven Criteria Used For Ranking Construction Project Applications

- Health and Safety Needs – 1,000 points
- Financial Need – 900 points
- Design – 800 points
- Planning and Management – 700 points
- Funding Package – 600 points
- Economic Development – 500 points
- Community Support – 400 points

Scoring Statutory Priorities One and Three

- Preliminary Engineering Reports are reviewed and evaluated by private sector engineering firms.
  - Several steps are taken to minimize any potential conflict of interest.
- Applicants are invited to comment on draft review reports.
- Scoring is done as a team utilizing the scoring definitions.
- Note: some applicants may comment on process and scores produced by this team.

- See Appendix B of the legislative report (pages 309 through 320) for:
  - Detailed information on the seven statutory priorities and specific questions asked
  - Scoring level definitions for all seven priorities
- See Appendix F for detailed scoring definitions and examples used to score statutory priority #1, for bridge, water, wastewater and storm water projects.

SCORING CRITERIA - WATER

- Level 5 Serious consequences (i.e. significant risk to public health and safety, loss of life, substantial property loss, or environmental pollution) clearly attributable to the deficiency in the water system have occurred or are imminent. Examples:
  - Total loss of water source (e.g. broken transmission main between community and water source, groundwater source dries up).
  - A community that has documented contamination (or where contamination is imminent) of their water supply with fecal coliform bacteria, nitrates, giardia, cryptosporidium, etc. with no current means of protection from the contaminants (e.g. filtration, disinfection).
  - A community that has documented that their groundwater source is under the influence of surface water and contamination of the groundwater supply is imminent. The community has no current means of protection from the contaminants (e.g. filtration, disinfection).
  - A community whose water source has, and will continue to have, acute levels of fluoride.

SCORING CRITERIA - BRIDGES

- Level 5 Serious consequences (i.e. significant risk to public health and safety, loss of life, substantial property loss, or environmental pollution) clearly attributable to the deficiency in the water system have occurred or are imminent.
  - NBI Sufficiency Rating (S.R.): S.R. less than or equal to 50% and
    1) NBI Bridge Appraisal Rating: the structure rating must receive a minimum score of "0" or "2" or
    2) NBI Bridge Element Condition Rating: one of the condition ratings for the bridge deck, superstructure, or substructure must receive a minimum score of "0", "1", or "2".
  - If the bridge has failed or washed out, or if a bridge is proposed to replace a culvert, such that there are no applicable NBI ratings, then a Level 5 score could be given if there is currently a serious risk to public health, safety, and welfare as a result of the bridge closure or the continued use of the culvert.

Scoring Statutory Priority Two Relative Financial Need

- See Part 5 (pages 15 through 22) and Appendix B (pages 309 through 320) of the legislative report.
- See complete financial analysis in Appendix G.
- Two indicators used in the financial assessment:
  - First Indicator - Economic Condition of Households:
    - Median Household Income (MHI)
    - Low to Moderate Income
    - Poverty level
  - Second Indicator - Financial Analysis

Financial Analysis for Bridge Projects

- Worked with Montana Association of Counties to develop new methodology.
- Total number of bridges that are the responsibility of the Count
- Total amount of funds available to the County from a select number of sources
  - Local taxes, Payment in Lieu of Taxes (PILT), Forest Revenues, Mineral Royalties, Oil and Gas Revenues, Entitlement Share, and Fuel Tax.
- Dollars available per bridge

Financial Analysis for Water and Wastewater Projects

- Target rate analysis is used to determine financial need.
- The target rate is a percentage of the applicant's median household income:
  - 2.3% both water and wastewater
  - 1.4% water only
  - 0.9% wastewater only
- Target percentages based on survey of communities throughout Montana.
- Income surveys allowed.

- Department used 92% of the target percentage in to determine the actual target rate.
- Must be at or above target rate to be recommended for a grant.

Target Rate Analysis

Town of Bainville

- MHI is $26,250 (2000 census)
- Has both a water and wastewater system
- Target Rate = ($26,250 x 2.3% x 92%) / 12 months = $46.29
- Existing combined user rate = $66.87 or 144% of target rate
- User rate with the requested TSEP grant = $81.87 or 177% of target rate
- User rate without the TSEP grant = $131.33 or 284% of target rate

Missoula County (Lolo)

- MHI is $44,680 (2000 census)
- Has only a wastewater system
- Target Rate = ($44,680 x 0.9% x 92%) / 12 months = $78.79
- Existing combined user rate = $43.23 or 55% of target rate
- User rate with the requested TSEP grant = $51.03 or 65% of target rate
- User rate with the recommendation of no grant = $55.93 or 71% of target rate

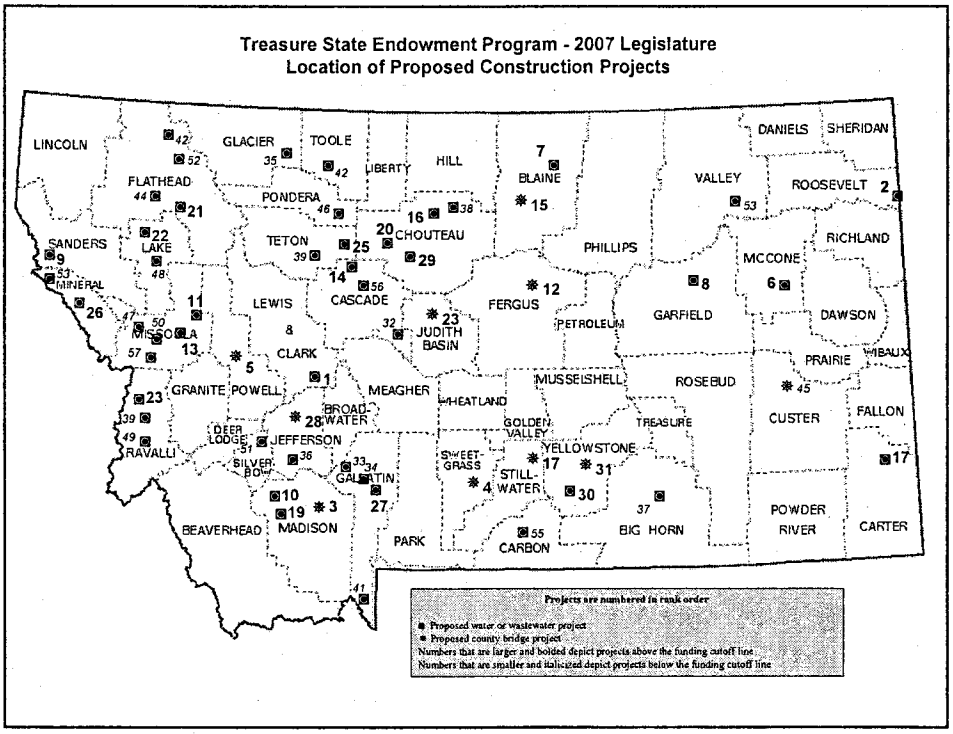
Readiness to Proceed

- TSEP and RRGL grants typically first funding obtained.
- In general, counties with bridge projects are the only applicants truly ready to proceed with the project.
- Projects only needing a loan, without additional grants, are able to proceed fairly quickly (assuming that a bond election is not required).
- Projects that are planning on STAG and WRDA grants have less viable funding packages.

- 15 Projects requesting STAG funds:
  - Brady, Carter, Columbia Falls, Crow Tribe, Cut Bank, Dayton, Fairfield, Hamilton, Gallatin Co. (Hebgen Lake), Loma, Missoula (Lolo), Seeley Lake, Three Forks, Twin Bridges, and Whitehall
  - Only Fairfield was recommended for a STAG grant (at a reduced amount) by the Congressional Delegation.
- 3 Projects requesting WRDA funds:
  - Darby, Dayton, and Power

57 Applications Ranked

- 57 applicants requested $33,891,715 in TSEP grants.
- Total cost to complete all the recommended projects is almost $142 million.
  - Historically, TSEP has leveraged on $3.37 for every TSEP dollar - see Appendix H.
- See Part 5 of the legislative report (pages 15 through 22) for the TSEP ranking and funding recommendations.
- See Part 6 of the legislative report (pages 27 through 306) for the individual project reports.



Two Projects With Modified Funding Recommendations

- Mineral County/Saltese Water and Sewer District (project #53 Tie)
  - Reduced from $750,000 to $390,000
  - If funded, limit the award to $15,000 per household
  - Did not have a serious enough health problem
- Missoula County (Lolo) (project #57)
  - Not recommended for a TSEP grant
  - User rates are well below the community's target rate

Funding Recommendations

- OBPP revenue projections - $17,333,653 (See Part 4, page 12, of the legislative report for the calculation of projected revenues.)
  - Projects #1 through #31 would be funded
  - Projects #32 through #34 contingently funded if there are sufficient funds
  - Assumes that one grant awarded by the 2001 Legislature is terminated
- Legislature's revenue projections - $17,267,825
  - Projects #1 through #30 would be funded

Three Alternative Funding Scenarios

- First scenario is based on an incrementally higher target rate.
- Second scenario is based on setting limits to the grant amount based on the target rate.
- Third scenario is based on simply reducing the maximum amount of grant that will be awarded.

First Funding Scenario

- The first group of scenarios are based on requiring applicants to meet an incrementally higher target rate.
  - 100%, 105%, 110%, 115%, and 120%
- The results show that most of the impact is to applicants in the lower half of the rankings.
- A few of the projects above the funding cutoff line would be reduced in order to allow one or two additional projects to be funded.

100% of Target Rate

- Lewis and Clark
  - reduced from $596,420 to $554,000
- Jordan
  - reduced from $700,000 to $574,250
  - Economic condition of households analysis Jordan is 14 lowest out 57 applications
- Could fund most of Neihart

105%

- Lewis and Clark - reduced from $596,420 to $523,400
- Harlem - reduced from $750,000 to $696,000
- Jordan - reduced from $700,000 to $493,000
- Could fund Neihart and a small portion of Manhattan
- Three Forks – would be skipped since it is reduced to $0

110%

- Lewis and Clark - reduced from $596,420 to $493,000
- Harlem - reduced from $750,000 to $545,000
- Jordan - reduced from $700,000 to $411,750
- Bigfork - reduced from $750,000 to $560,000
- RAE – reduced from $750,000 to $639,000
- Could fund both Neihart and Manhattan
- Three Forks – would be skipped since it is reduced to $0

115%

- Lewis and Clark - reduced from $596,420 to $462,500
- Harlem - reduced from $750,000 to $393,750
- Jordan - reduced from $700,000 to $330,250
- Bigfork - reduced from $750,000 to $0
- RAE - reduced from $750,000 to $451,250
- Fort Benton - reduced from $750,000 to $535,000
- Could fund both Neihart and Manhattan
- Three Forks would be skipped since it is reduced to $0
- Even though there are remaining funds, the grants for the next nine projects are reduced or have had their grant eliminated altogether.

Conclusions Regarding First Funding Scenario

- Methodology requires the same minimum amount of hardship in regards to user rates.
- Projects that have funding reduced may not complete their project.
- The Department would not recommend going below Manhattan. However, even going to 110% in order to fund Manhattan could seriously jeopardize other projects from being completed.
- Not going beyond 100% would be best option from the standpoint of minimizing the potential financial impact to the two projects with reduced grants.

Second Funding Scenario

- A second scenario is based on setting limits to the grant amount based on target rate.
  - Under 110% of target rate – limited to $500,000
  - Between 110% and 125% – limited to $650,000
  - Above 125% – Full $750,000 allowed
- This scenario is based on what the Department is contemplating for the 2008 competition.
- The problem with applying this methodology at this time is that applicants have not been able to re-structure their funding package.
  - Projects may not be completed with reduced funding.

Third Funding Scenario

The last group of scenarios are based on simply reducing the amount of grant that will be awarded.

- $500,000 – Last project completely funded is #39 (Hamilton)
- $600,000 – Last project completely funded is #35 (Cut Bank)
- $650,000 – Last project completely funded is #33 (Three Forks)

Problems With Applying Methodology of Third Funding Scenario

- Arbitrarily reduces everyone potentially, with no consideration of relationship to target rate.
  - Significantly greater hardship to applicants that have high user rates and are well above the target rate.
  - Would create only a minor hardship for applicants that have lower user rates and are close to the target rate.
- Applicants have not been able to re-structure their funding package, and the project may not be completed.

HB 11

- See Appendix I for copy of HB 11
- See Part 3 of the legislative report (pages 10 and 11) for more detailed information about the provisions of HB 11
- Appropriates funds for TSEP construction projects
- Appropriates $600,000 for preliminary engineering grants
- Appropriates $100,000 for emergency grants

- Terminates one previously authorized project that has not moved forward
  - Lockwood Water and Sewer District - $500,000
- Appropriates funds from the treasure state endowment regional water system fund to provide the state's share for regional water system projects